Pilot Retirement Incentive Benchmarking Survey Report for Benchmark Participants

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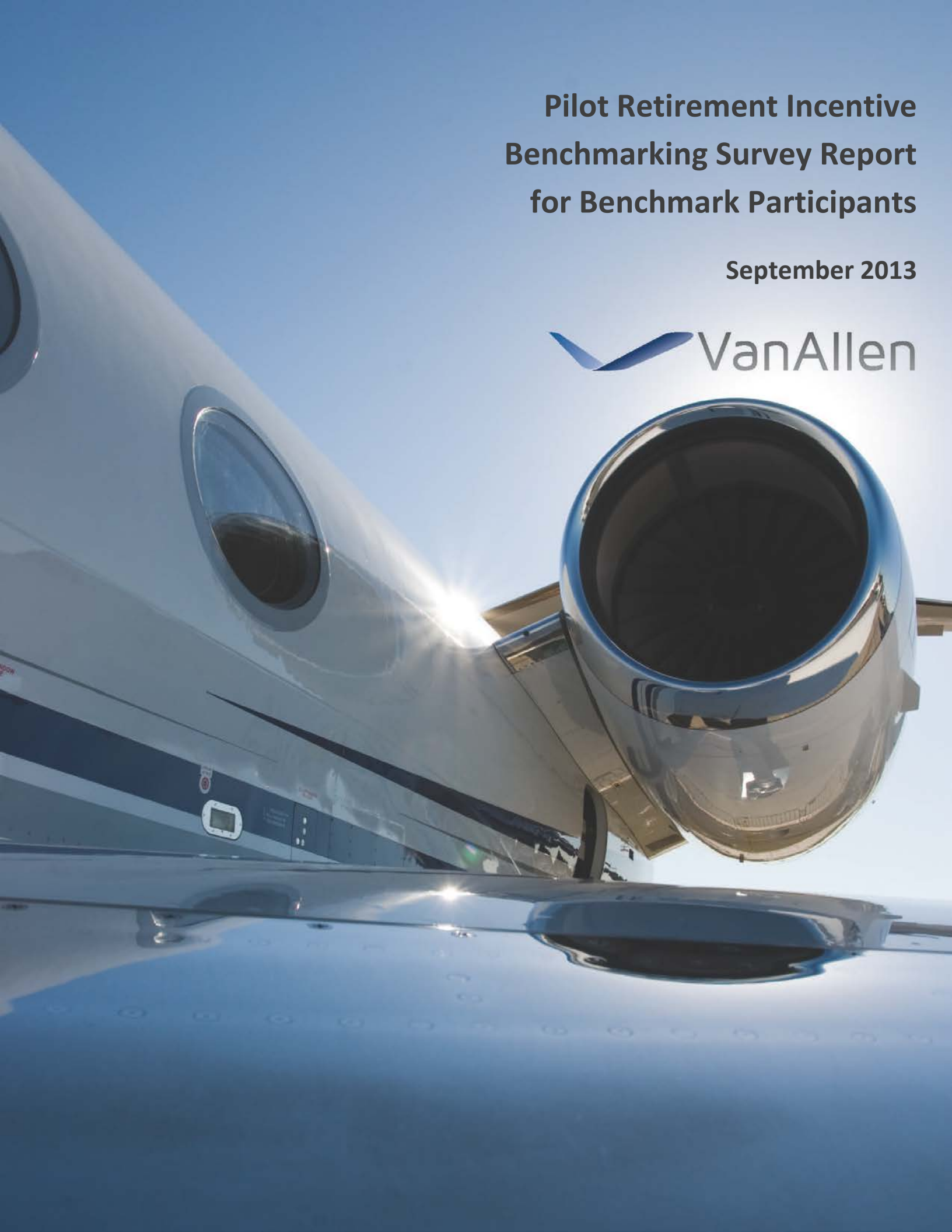
VanAllen



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1. Executive Summary

This report compares how companies who operate aircraft internally manage pilot maturity through:

- Supplemental retirement compensation,
- Benefit incentives, and
- Economic disincentives.

The issues surrounding aging flight crewmembers have been a focus of study among human factors experts. These studies have shown that age-related degradation of cognitive and physical abilities have measurable effects on crewmember performance. Even so, this is a sensitive subject for numerous regulatory, legal and cultural reasons.

However, the effects of aging vary greatly from one individual to the next. Between 2006 and 2007, the International Civil Aviation Organization (ICAO) and the Federal Aviation Administration (FAA) revised pilot age restrictions from age 60 to age 65 for certain flight operations. While most corporate flight operations do not fall under the FAA maximum age law, some corporations have chosen to proactively control their flight crew's retirement by instituting mandatory retirement ages and/or retirement incentives.

To identify current corporate policies, VanAllen conducted a benchmark survey of companies who incentivize pilots to retire upon reaching a predefined age threshold. Six companies participated in this study.

The survey found that corporations:

1. Structure incentives for pilots to retire by defining eligibility to those benefits.
2. Offer a form of cash compensation if a pilot chooses to retire under the program.
3. Some companies offer forms of retirement benefits beyond compensation.
4. Finally, some companies impose a form of disincentive to continue employment by terminating or reducing the overall incentive package.

2. Eligibility to Claim Benefits

Company A:

Company A states an active pilot is eligible to receive benefits once the pilot has reached age 60.

Additionally, the pilot must have completed 12 months of employment with the company.

Company B:

Company B requires pilots must be between the age of 55 and 62 to receive the additional pension benefit.

No additional time of employment is necessary other than retirement requirements under the company plan.

Company C:

Company C states an active pilot is eligible for retirement benefits if the pilot terminates employment on or after the earlier of:

- The date on which the pilot's age plus years of accredited service equals or exceeds 75, or
- The attainment of age 60.

No additional time of employment is necessary other than retirement requirements under the company plan.

Company D:

Company D states a pilot is eligible for the incentive once they retire as of their 65th birthday.

An eligible pilot must have at least 10 years of Vesting Service under the company's Qualified Pension Plan.

Company E:

Company E states pilots are eligible for the early retirement benefit upon reaching the age of 60.

No additional time of employment is necessary other than retirement requirements under the company plan.

Company F:

Company F states pilots are eligible to receive the retirement incentive once they:

- Have reached age 65 or older, or
- Are at least age 55 with 20 or more years of service.

Additionally, a pilot must have completed 12 months of employment with the company.

Summary

A key policy element of the studied retirement incentives is the target age at which the companies decide is most desirable for a pilot to retire.

The survey group target retirement age varied from age 55 to age 65, with age 60 being the most common target. Variances within the group allowed for an age range where a pilot may have some freedom in timing their retirement with full benefits. Other variances allowed for pilots to retire earlier than the target age if they meet the additional time of service requirements. Some additional comments from participants with the target age of 65 indicated the company recently increased the target age from 60 to 65 as a result of the FAA and ICAO regulation changes.

3. Retirement Incentive Compensation

Company A:

Company A offers 78 weeks of salary continuation to pilots. The salary continuation is paid in a normal payroll cycle.

The salary continuation is offered in addition to any other retirement plan a pilot may have with the company.

Pilots are also eligible for company bonuses, adjusted for time in service for the retirement year.

Company B:

Company B offers a supplemental pension benefit which includes the value of five years of additional service with the company and five years of additional years of age in the pension plan calculation related to the pilot's active retirement program. The additional benefit is paid in monthly pension payments.

The supplemental pension benefit is offered in addition to the company's standard pension program.

The total value of the retirement benefit is calculated internally and varies case by case.

Company C:

Company C offers pilots a salary continuation for 24 months beyond the date of retirement. Pilots may choose to receive the payments in a normal payroll cycle or in a lump sum. If a pilot elects for a lump sum payment, they are not eligible for additional benefits.

The severance plan benefits are offered in lieu of any other retirement supplement or other severance benefits from the company.

Company D:

Company D offers pilots a supplemental lump sum payment equal to one month's salary for every year of service, to a maximum of 12 months. This benefit is paid at the end of the month in which the pilot attains age 65.

In addition, a pilot's retirement incentive will include an additional two years of eligible earnings and credited service under the company pension plan.

Company E:

Company E offers pilots a supplemental payment of 10% of their annual base compensation for a lifetime.

The supplemental benefit is in addition to the company pension program.

Company F:

Company F offers pilots a monthly benefit for life upon retirement. The payment is calculated in a formula that accounts for the pilot's average monthly compensation, time of service with the company, and the pilot's social security benefit.

The total value of the retirement benefit is calculated internally and varies on a case-by-case basis.

Summary

At the target age for retirement, companies incent pilots to retire with an offer of cash compensation. In each policy, a pilot has the choice to continue employment. However, the incentive compensation is offered in a structure that encourages retirement.

The survey group is spilt by the manner in which they offer the incenting compensation:

- Salary continuation for a period of time, or
- Added consideration in companywide retirement plans.

The only variance is a hybrid plan that offers both a salary continuation and an added consideration in the company pension plan.

4. Retirement Incentive Additional Benefits

Company A:

Company A contributes a lump sum amount of medical insurance coverage payments. That payment equals the pilot's normal payroll deduction amount for up to 18 months.

Pilots are also eligible for company bonuses, adjusted for time in service for the retirement year.

Company B:

Company B does not have additional benefits other than programs offered to the entire company.

Company C:

Company C offers active company benefits coverage continuation for an additional 24 months.

Company D:

Company D does not have additional benefits other than programs offered to the entire company.

Company E:

Company E offers supplemental payments for social security, company pension payments, and medical coverage for five years. The supplemental payments are made along with the benefit compensation while the additional benefits applied.

Company F:

Company F offers pilots continued medical insurance coverage for the term of the compensation benefit.

Summary

In addition to cash compensation, some companies in the survey group offer additional benefits upon retirement to further encourage a pilot's decision to retire at the policy target age. The majority of policies attempt to bridge the benefits a pilot would have received if they continued employment for a period of time. However, many companies who do not offer additional benefits separately have company retirement programs.

5. Disincentives to Continue Employment

Company A:

Company A's incentive changes with the age of the pilot. Adjustments are as follows:

Age of Pilot on the Effective Date	Salary Continuation/ Total Weeks of Pay	Decrease in total benefit compensation
60	Seventy-eight (78) weeks of pay	-
61	Fifty-two (52) weeks of pay	-33%
62	Thirty-nine (39) weeks of pay	-50%
63	Twenty-six (26) weeks of pay	-67%
64	Thirteen (13) weeks of pay	-83%

Company B:

Company B pilots do not receive additional benefit credits if they choose to retire before age 55 or after age 62. The benefit amount does not change between age 55 and age 62.

Company C:

Company C's severance incentive changes according to the age of the pilot. The adjustments are:

Age of Pilot	Base Salary and Active Benefits Continuation	Decrease in total benefit compensation
age 60 and under	24 months	-
over age 60 up to and including 60½	12 months	-50%
over age 60½ up to and including age 61	9 months	-63%
over age 61 up to and including age 62	6 months	-75%
over age 62 up to age 65	3 months	-88%

Company D:

Company D pilots are only eligible for the additional retirement benefit if they retire as of their 65th birthday.

Company E:

Company E pilots become ineligible for the early retirement benefits after the age of 60. The benefit is only offered at age 60.

Company F:

Company F's retirement plan does not change after a pilot reaches age 65 or at age 55 with at least 20 years of service with the company.

Summary

Companies place a disincentive in the policy that adjusts the total retirement package by reducing both compensation and benefit amounts for the period of time employment continue past the target age. Companies use the negative reinforcement of a reduced retirement award to make a more compelling case for pilots to retire at the target age.